

## **Prefatory Note**

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,<sup>1</sup> and then making the scanned versions text-searchable.<sup>2</sup> Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

<sup>1</sup> In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

<sup>2</sup> A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

April 16, 1980

## **SUMMARY AND OUTLOOK**

---

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

Summary

Evidence continues to accumulate that economic activity has turned down. In addition to a further decline in housing activity, spending by consumers has fallen and growth of business outlays has slowed. Employment and industrial production declined in March. While aggregate price measures have continued to rise at a very rapid pace, there have been sharp declines in spot commodity prices in recent weeks.

Industrial production is estimated to have dropped 0.8 percent in March, following a small decline of 0.2 percent (revised) in February. In March, production declines were widespread with particularly large reductions in the output of construction supplies and consumer nonauto durables. Production of motor vehicles and parts remained at a relatively low level, and business equipment output leveled off.

Labor demand weakened in March as nonfarm payroll employment fell 140,000 and the unemployment rate rose to 6.2 percent. The decrease in employment was concentrated primarily in the construction industry, but signs of softening were evident in other sectors as well. Employment in the service-producing sector--where hiring gains have been quite strong until recently--was virtually unchanged, and some additional manufacturing layoffs were reported. Moreover, the factory workweek declined further in March to a level one-half hour below January.

Retail sales in nominal terms fell 1.3 percent in March, following a downward-revised 1.6 percent drop in February. In real terms,

retail sales have fallen more than 5 percent in the past two months. Consumer spending for general merchandise, apparel, and furniture and appliances has been particularly weak; these are items that typically represent discretionary purchases. Auto sales slowed somewhat in March and remained weak in early April.

Housing activity deteriorated further in February. Private housing starts fell over 6 percent to a 1.3 million unit annual rate--the lowest monthly pace since late 1975. The February cutback was in single-family starts; in contrast, multifamily starts rebounded sharply after four successive monthly declines. Permits for new housing fell even more sharply than starts in February, and sales of single-family homes--both new and existing--declined further.

Growth of business investment spending moderated in February, as shipments of nondefense capital goods rose only 1-1/2 percent and the value of construction put in place fell. In addition, near-term commitments for spending moved down: new orders for machinery declined 4-1/2 percent, and bookings for nonmachinery items were off considerably. However, the substantial backlog of orders should help support equipment spending in the near term.

Inventory investment moderated in February, suggesting that businesses continued to pursue cautious inventory-management policies in the face of slowing final sales. The book value of total manufacturing and trade inventories rose at a \$36 billion annual rate in February, down about \$14 billion from the January pace. Much of the slowing was in the manufacturing sector, following a record accumulation in January. Factory stockbuilding in February was about evenly divided

among producers of durable and nondurable goods, with the largest increases reported for electrical machinery, and--as in other recent months--at manufacturers of aircraft, missiles, and parts. The book value of stocks at the retail level, which had been reduced in December and January, held close to the lower level in February as a substantial liquidation at department stores was offset by small increases elsewhere.

The federal deficit is estimated to have reached a total of \$52 billion during the six months ending March 1980. With higher tax receipts and lower refund payments scheduled over the remainder of FY 1980, the administration now estimates a deficit of about \$37 billion for FY 1980 as a whole, somewhat less than was anticipated in January.

Both consumer and producer finished goods prices have risen at about a 1-1/2 percent monthly rate since the beginning of the year. Once again, energy prices--particularly for gasoline--strongly influenced the advances in the aggregate measures. Food prices at retail remained unchanged in both January and February, and actually declined at the producer level; in March, however, there was a renewed upward movement at the producer level. For industrial commodities, price increases have subsided recently due to sharp declines in metal prices as well as a drop in lumber and plywood prices.

### Outlook

Currently available data suggest that real GNP increased at about a 2 percent annual rate during the first quarter.<sup>1</sup> However,

<sup>1</sup> The first quarter GNP estimates of the Department of Commerce will be included in the Greenbook Supplement on April 18.

during the course of the quarter output decelerated and the staff now expects real GNP to decline at about a 2-3/4 percent rate in the second quarter instead of the 1-1/2 percent drop projected last month. The downward revision mainly is concentrated in residential housing construction and consumer purchases; in part the changes reflect the tightening of financial conditions as well as the effects of the oil import fee on household budgets.

The assumptions for the monetary aggregates underlying the staff GNP projection are little changed from last month, with M-1A still assumed to grow 4-3/4 percent in 1980 and in 1981. Short term interest rates are projected to move down as demands for money and credit ease in conjunction with the drop in economic activity, but the level of longer term rates is now projected to be a bit higher than in the last Greenbook--especially mortgage rates. The fiscal policy assumptions incorporate the President's March budget revisions, modified to reflect differences in economic projections between the administration and the staff and to incorporate some \$5 billion of additional spending assumed by the staff. (See Comments on the Federal Sector.)

Real GNP is projected to continue moving down through the first half of 1981. Activity is expected to fall 3-3/4 percent from peak to trough--more than in the typical postwar recession, but less than in 1973-75. The recession is expected to be widespread with substantial declines in the demand components that are sensitive to interest rates and credit availability. Housing starts, for example, now are projected to reach a trough of 900,000 units (annual rate) in the second and third quarters of this year, down from the month-earlier projection of about

1 million units. Consumer durable purchases and business fixed investment also are likely to be affected adversely by the progressive weakness in real income and the restrictive posture of monetary policy. Although the reduction in federal grants is assumed by the staff to be somewhat smaller than recommended by the administration, the cut is still likely to damp expenditures by state and local governments.

A sluggish revival of activity is expected in the second half of 1981; the recovery would be led by a moderate upturn in the housing sector, as underlying demands for housing begin to resurface. Nonetheless, the projected output gains are not sufficient to absorb the expected growth in the labor force, and the unemployment rate, which is projected to be nearly 8 percent late this year, is likely to reach about 8-3/4 percent by 1981-Q4.

The projected rate of inflation for the next few quarters has been raised significantly. The primary factor is the new oil import fee, which is designed to raise gasoline prices 10 cents per gallon and which would directly boost the 1980 inflation rate by about 1/2 percentage point. In addition, the CPI will be pushed up further by the higher mortgage interest rates that have emerged in recent weeks. However, after these factors have had their principal effects, inflation is expected to moderate later this year as aggregate demand weakens. The gross business product fixed-weighted price index is projected to decelerate from a 12-1/2 percent rate in the current quarter to about a 10 percent rate at the end of 1980. With some easing of wage pressures likely as the recession continues, and with an assumed slowing in the

increase of energy prices, we are projecting an 8-1/2 percent rate of inflation by the end of 1981.

Detailed data for these projections are shown in the following tables.



## STAFF GNP PROJECTIONS

Percent changes, annual rate										
Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)		
				Total		Excluding food and energy				
3/14/80	4/16/80	3/14/80	4/16/80	3/14/80	4/16/80	3/14/80	4/16/80	3/14/80	4/16/80	
<b>Annual changes:</b>										
1978 <u>1/</u>	12.0	12.0	4.4	4.4	7.6	7.6	7.2	7.2	6.0	6.0
1979 <u>1/</u>	11.4	11.3	2.3	2.3	9.6	9.6	8.1	8.1	5.8	5.8
1980	9.4	8.9	.1	-.4	10.2	10.7	7.9	8.1	6.7	7.0
1981	7.3	7.4	-1.8	-2.1	9.2	9.6	7.9	8.2	8.3	8.6
<b>Quarterly changes:</b>										
1979-Q1 <u>1/</u>	10.6	10.6	1.1	1.1	10.0	10.0	7.7	7.7	5.7	5.7
1979-Q2 <u>1/</u>	6.7	6.7	-2.3	-2.3	10.1	10.1	7.9	7.9	5.8	5.8
1979-Q3 <u>1/</u>	11.9	11.9	3.1	3.1	10.4	10.4	7.6	7.6	5.8	5.8
1979-Q4 <u>1/</u>	10.9	10.5	2.1	2.0	8.9	8.4	7.2	7.2	5.9	5.9
1980-Q1	11.3	10.3	1.9	2.0	11.2	11.9	8.0	8.8	6.1	6.1
1980-Q2	8.2	8.3	-1.6	-2.9	10.8	12.3	8.2	9.0	6.4	6.6
1980-Q3	5.6	4.6	-3.6	-4.9	9.7	10.2	8.3	8.4	7.0	7.3
1980-Q4	5.9	5.3	-3.8	-4.5	9.6	9.7	8.3	8.2	7.5	7.9
1981-Q1	6.8	7.6	-2.5	-2.3	9.2	9.9	8.1	8.7	8.0	8.3
1981-Q2	7.8	9.0	-.8	.0	8.8	9.2	7.6	8.1	8.3	8.5
1981-Q3	9.5	9.0	1.6	.9	8.2	8.5	7.1	7.5	8.4	8.7
1981-Q4	10.2	9.9	1.8	1.2	8.1	8.5	7.0	7.4	8.5	8.8
<b>Two-quarter changes:</b> <sup>2/</sup>										
1979-Q4 <u>1/</u>	11.4	11.2	2.6	2.5	9.6	9.3	7.4	7.1	.1	.1
1980-Q2	9.8	9.3	.2	-.5	11.0	12.1	8.1	8.9	.5	.7
1980-Q4	5.7	4.9	-3.7	-4.7	9.6	10.0	8.3	8.3	1.1	1.3
1981-Q2	7.3	8.3	-1.7	-1.2	8.9	9.5	7.8	8.4	.8	.6
1981-Q4	9.9	9.5	1.7	1.0	8.1	8.5	7.1	7.5	.2	.3
<b>Four-quarter changes:</b> <sup>3/</sup>										
1978-Q4 <u>1/</u>	13.4	13.4	4.8	4.8	8.6	8.6	8.1	8.1	-.7	-.7
1979-Q4 <u>1/</u>	10.0	9.9	1.0	1.0	9.8	9.7	7.6	7.5	.1	.1
1980-Q4	7.7	7.1	-1.8	-2.6	10.3	11.0	8.2	8.6	1.6	2.0
1981-Q4	8.6	8.9	.0	-.1	8.6	9.0	7.5	7.9	1.0	.9

1/ Actual.2/ Percent change from two quarters earlier.3/ Percent change from four quarters earlier.

April 16, 1980

CONFIDENTIAL - FR  
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Quarterly figures are seasonally adjusted. Expenditures and income  
figures are billions of current dollars at annual rates.)

	1980				1981			
	Q1	Q2	Q3	Q4	Projected Q1	Q2	Q3	Q4
Gross national product	2517.9	2568.5	2597.5	2631.2	2680.0	2738.1	2797.9	2865.0
Final purchases	2516.6	2561.8	2595.0	2643.2	2689.0	2738.1	2794.4	2860.0
Private	1999.7	2035.1	2058.8	2093.7	2130.4	2170.2	2216.3	2267.2
Excluding net exports	2021.9	2045.6	2063.1	2091.0	2119.8	2157.2	2202.9	2254.9
Personal consumption expenditures	1634.3	1669.5	1694.0	1719.1	1746.2	1778.2	1815.4	1855.4
Goods	875.8	888.8	893.3	898.2	904.6	915.9	933.2	953.0
Services	758.5	780.7	800.7	820.9	841.6	862.3	882.2	902.4
Gross private domestic investment	388.9	382.8	371.6	359.9	364.6	379.0	391.0	404.5
Residential construction	111.9	94.9	87.4	90.4	94.4	100.4	107.9	117.4
Business fixed investment	275.7	281.2	281.7	281.5	279.2	278.6	279.6	282.1
Change in business inventories	1.3	6.7	2.5	-12.0	-9.0	.0	3.5	5.0
Nonfarm	.9	6.7	2.5	-12.0	-9.0	.0	3.5	5.0
Net exports of goods and services <sup>1/</sup>	-22.2	-10.5	-4.3	2.7	10.6	13.0	13.4	12.3
Exports	298.0	303.9	310.2	315.1	322.7	330.7	339.5	348.6
Imports	320.2	314.4	314.5	312.4	312.1	317.7	326.1	336.3
Gov't. purchases of goods and services	516.9	526.7	536.2	549.5	558.6	567.9	578.1	592.8
Federal <sup>2/</sup>	187.1	190.6	193.7	200.8	204.4	208.0	211.6	219.7
State and local	329.8	336.1	342.5	348.7	354.2	359.9	366.5	373.1
Gross national product in constant (1972) dollars	1447.4	1436.6	1418.7	1402.5	1394.4	1394.4	1397.4	1401.5
Personal income	2056.3	2105.2	2161.1	2203.4	2237.7	2277.1	2333.0	2381.4
Wage and salary disbursements	1299.9	1321.4	1338.3	1358.2	1378.3	1400.0	1423.4	1452.6
Disposable personal income	1736.4	1774.2	1822.2	1856.6	1883.1	1914.1	1961.1	1998.8
Saving rate (percent)	3.4	3.4	4.5	4.8	4.6	4.5	4.8	4.5
Corporate profits with I.V.A. and C.C. Adj.	182.5	166.6	149.2	130.4	121.7	129.3	137.2	145.2
Corporate profits before tax	264.6	238.2	217.9	197.6	189.4	197.5	205.9	214.4
Federal government surplus or deficit (-) (N.I.A. basis)	-20.3	-13.0	-36.3	-43.0	-30.9	-23.6	-31.3	-28.7
High employment surplus or deficit (-)	5.2	27.2	27.0	45.7	74.7	91.8	92.5	102.5
State and local government surplus or deficit (-) (N.I.A. basis)	25.9	22.9	22.0	18.8	18.8	19.5	19.6	21.5
Excluding social insurance funds	-2.7	-6.3	-7.7	-11.5	-12.1	-12.0	-12.5	-11.2
Civilian labor force (millions)	104.2	104.5	104.9	105.3	105.5	105.8	106.1	106.4
Unemployment rate (percent)	6.1	6.6	7.3	7.9	8.3	8.5	8.7	8.8
Nonfarm payroll employment (millions)	90.7	90.5	90.0	89.5	89.2	89.2	89.2	89.3
Manufacturing	20.9	20.6	20.3	19.9	19.5	19.3	19.3	19.3
Industrial production (1967=100)	152.1	150.0	147.8	145.1	143.4	143.0	142.7	142.7
Capacity utilization: all mfg. (percent)	83.7	81.9	79.9	77.3	75.6	74.7	74.1	73.6
Materials (percent)	85.3	81.8	79.2	76.8	75.9	74.0	73.6	73.2
Housing starts, private (million units, A.R.)	1.29	.90	.90	1.10	1.15	1.20	1.30	1.40
New autos sales, (millions, A.R.)	10.64	9.75	9.55	9.40	9.25	9.35	9.45	9.65
Domestic models	7.87	7.00	6.85	6.75	6.65	6.70	6.80	6.90
Foreign models	2.77	2.75	2.70	2.65	2.60	2.65	2.65	2.75

<sup>1/</sup> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<sup>2/</sup> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

April 16, 1980

CONFIDENTIAL - FR  
CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS  
(Annual rates compounded quarterly)

	1980				1981			
	Q1	Q2	Q3	Projected Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product -	2.0	-2.9	-4.9	-4.5	-2.3	.0	.9	1.2
Final purchases	2.3	-3.7	-4.4	-2.5	-2.7	-1.3	.4	1.0
Private	1.7	-4.5	-5.3	-3.0	-3.1	-1.5	.4	1.1
Excluding net exports	.6	-6.0	-5.8	-4.0	-4.1	-1.9	.2	1.2
Personal consumption expenditures	1.2	-3.4	-4.1	-3.7	-3.4	-1.6	.3	.8
Goods	-4	-7.6	-8.0	-7.4	-6.8	-3.8	-.3	.5
Services	3.0	1.7	.6	.5	.2	.6	1.0	1.0
Gross private domestic investment	-3.8	-12.0	-17.5	-19.4	-4.2	7.0	3.7	4.9
Residential structures	-21.0	-52.5	-34.0	5.0	9.1	17.4	21.8	28.0
Business fixed investment	6.0	-1.4	-7.5	-8.4	-11.2	-8.5	-6.2	-3.9
Gov't. purchases of goods and services	4.6	-.7	-.3	-.5	-1.0	-.2	.4	.3
Federal	14.6	.6	.2	.1	.1	1.4	1.4	1.5
State and local	-1.1	-1.5	-.5	-.9	-1.6	-1.1	-.2	-.4
Disposable personal income	.2	-3.3	.7	-2.1	-4.0	-2.4	1.7	-.3
<u>Current dollars</u>								
Gross national product	10.3	8.3	4.6	5.3	7.6	9.0	9.0	9.9
Final purchases	11.1	7.4	5.3	7.6	7.1	7.5	8.5	9.7
Private	10.5	7.3	4.8	6.9	7.2	7.7	8.8	9.5
Excluding net exports	12.8	4.8	3.5	5.5	5.6	7.2	8.7	9.8
Personal consumption expenditures	14.4	8.9	6.0	6.1	6.5	7.5	8.6	9.1
Goods	14.4	6.1	2.0	2.2	2.9	5.1	7.8	8.8
Services	14.3	12.2	10.6	10.5	10.5	10.2	9.6	9.5
Gross private domestic investment	1.8	-6.1	-11.2	-12.0	5.3	16.8	13.3	14.5
Residential structures	-14.6	-48.3	-28.1	14.5	18.9	28.0	33.4	40.1
Business fixed investment	16.8	8.2	.7	-.3	-3.2	-.9	1.4	3.6
Gov't. purchases of goods and services	13.1	7.8	7.4	10.3	6.8	6.8	7.4	10.6
Federal	21.0	7.7	6.7	15.5	7.4	7.2	7.1	16.2
State and local	9.0	7.9	7.8	7.4	6.5	6.6	7.5	7.4
Disposable personal income	13.3	9.0	11.3	7.8	5.8	6.7	10.2	7.9
Personal income	10.6	9.9	11.1	8.1	6.4	7.2	10.2	8.6
Wage and salary disbursements	9.6	6.8	5.2	6.1	6.1	6.4	6.9	8.5
Corporate profits with IVA & C.C. Adj.	6.6	-30.6	-35.7	-41.7	-24.1	27.4	26.8	25.4
Corporate profits before tax	33.4	-34.3	-30.0	-32.3	-15.6	18.2	18.2	17.7
Nonfarm payroll employment	2.6	-.6	-2.2	-2.3	-1.1	-.3	.2	.2
Manufacturing	.1	-4.5	-5.8	-8.3	-7.1	-4.2	-1.4	.6
Nonfarm business sector								
Output per hour	1.2	-2.0	-2.5	-1.7	-.7	.9	1.0	1.3
Compensation per hour	9.7	9.4	9.4	9.4	11.9	8.5	8.3	8.2
Unit labor costs	8.4	11.6	12.2	11.3	12.7	7.5	7.2	6.8
GNP implicit deflator <sup>1/</sup>	8.2	11.5	10.0	10.2	10.2	9.0	8.1	8.7
Gross domestic business product								
fixed-weighted price index <sup>2/</sup>	11.9	12.3	10.2	9.7	9.9	9.2	8.5	8.5
Excluding food and energy	8.8	9.0	8.4	8.2	8.7	8.1	7.5	7.4
Consumer price index (all urban)	17.2	17.1	18.1	8.5	7.5	8.0	6.3	8.6
Industrial production	-.3	-5.4	-5.7	-7.1	-4.6	-1.1	-.8	.0

<sup>1/</sup> Excluding Federal pay increases, the rates of change are: 1980-Q1, 8.2 percent; 1980-Q4, 9.6 percent; 1981-Q1, 10.1 percent; 1981-Q4, 8.0 percent.

<sup>2/</sup> Uses expenditures in 1972 as weights.

April 16, 1980

CONFIDENTIAL - FR  
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Quarterly figures are seasonally adjusted. Expenditures and income  
figures are billions of current dollars at annual rates.)

	1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2011.3	2104.2	2159.6	2235.2	2292.1	2329.8	2396.5	2456.9
Final purchases	1988.5	2078.4	2139.5	2214.5	2272.9	2296.4	2381.9	2451.4
Private	1569.1	1650.1	1698.6	1760.7	1812.8	1829.8	1904.1	1950.2
Excluding net exports	1591.3	1657.7	1705.4	1765.2	1808.8	1837.9	1906.4	1962.1
Personal consumption expenditures	1287.2	1331.2	1369.3	1415.4	1454.2	1475.9	1528.6	1580.4
Goods	691.2	722.1	740.2	770.2	784.9	789.9	818.1	846.9
Services	596.0	609.1	629.1	645.1	669.3	686.0	710.6	733.5
Gross private domestic investment	327.0	352.3	356.2	370.5	373.8	395.4	392.3	387.2
Residential construction	100.5	107.7	110.2	113.7	111.2	112.9	116.0	116.4
Business fixed investment	203.7	218.8	225.9	236.1	243.4	249.1	261.8	265.2
Change in business inventories	22.8	25.8	20.0	20.6	19.1	33.4	14.5	5.6
Nonfarm	22.0	25.3	18.5	19.3	18.8	32.6	12.6	2.1
Net exports of goods and services <sup>1/</sup>	-22.2	-7.6	-6.8	-4.5	4.0	-8.1	-2.3	-11.9
Exports	184.4	205.7	213.8	224.9	238.5	243.7	267.3	280.4
Imports	206.6	213.3	220.6	229.4	234.4	251.9	269.5	292.4
Gov't. purchases of goods and services	419.4	428.3	440.9	453.8	460.1	466.6	477.8	501.2
Federal <sup>2/</sup>	150.9	148.2	152.3	159.0	163.6	161.7	162.9	178.4
State and local	268.5	280.1	288.6	294.8	296.5	304.9	314.9	322.8
Gross national product in constant (1972) dollar	1367.8	1395.2	1407.3	1426.6	1430.6	1422.3	1433.3	1440.3
Personal income	1634.8	1689.3	1742.5	1803.1	1852.6	1892.5	1946.6	2005.0
Wage and salary disbursements	1052.0	1090.0	1116.8	1154.3	1189.3	1212.4	1238.1	1271.5
Disposable personal income	1395.0	1437.3	1476.5	1524.8	1572.2	1601.7	1640.0	1683.1
Saving rate (percent)	5.3	5.0	4.8	4.7	5.0	5.4	4.3	3.5
Corporate profits with I.V.A. and C.C. Adj.	141.2	169.4	175.2	184.8	178.9	176.6	180.8	179.6
Corporate profits before tax	177.5	207.2	212.0	227.4	233.3	227.9	242.3	246.2
Federal government surplus or deficit (-) (N.I.A. basis)	-49.4	-24.6	-20.4	-16.3	-11.7	-7.0	-11.3	-14.7
High employment surplus or deficit (-)	-24.9	-8.0	-6.8	-6.6	-9	13.8	10.8	8.3
State and local government surplus or deficit (-) (N.I.A. basis)	30.2	29.6	22.7	27.1	27.6	19.7	25.3	26.0
Excluding social insurance funds	7.9	6.5	-9	3.3	2.6	-6.3	-1.8	-2.0
Civilian labor force (millions)	99.1	100.2	100.8	101.5	102.3	102.4	103.2	103.7
Unemployment rate (percent)	6.2	6.0	6.0	5.8	5.7	5.8	5.8	5.9
Nonfarm payroll employment (millions)	84.8	86.3	86.9	87.8	88.7	89.4	89.8	90.1
Manufacturing	20.2	20.4	20.5	20.8	21.0	21.1	21.0	20.9
Industrial production (1967=100)	140.8	145.1	147.9	150.7	152.2	151.9	152.3	152.2
Capacity utilization: all mfg. (percent)	82.0	83.9	85.2	86.4	86.7	85.9	85.4	84.6
Materials (percent)	82.6	85.0	86.4	88.2	88.0	87.3	87.2	86.3
Housing starts, private (million units, A.R.)	1.86	2.10	2.03	2.06	1.67	1.82	1.81	1.59
New autos sales, (millions, A.R.)	10.80	12.09	11.16	11.06	11.56	10.65	10.79	9.80
Domestic models	8.80	10.01	9.21	9.14	9.30	8.16	8.63	7.43
Foreign models	2.00	2.09	1.96	1.92	2.25	2.49	2.16	2.37

<sup>1/</sup> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<sup>2/</sup> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

April 16, 1980

CONFIDENTIAL - FR  
CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS  
(Annual rates compounded quarterly)

	1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	1.9	8.3	3.5	5.6	1.1	-2.3	3.1	2.0
Final purchases	.4	8.7	4.6	5.7	1.1	-3.9	6.4	3.6
Private	.8	10.7	4.4	6.7	1.8	-4.1	7.8	3.1
Excluding net exports	1.0	7.9	4.1	6.9	.4	-2.9	5.3	3.1
Personal consumption expenditures	.8	5.6	4.8	6.8	.6	-2.9	4.9	4.1
Goods	-4.7	9.2	4.2	9.9	-4.4	-7.3	6.0	4.7
Services	7.9	1.4	5.5	3.2	7.1	2.5	3.6	3.5
Gross private domestic investment	12.3	15.7	-5.0	6.6	-.5	8.5	-12.8	-11.6
Residential structures	-4.7	11.0	-4.9	-1.1	-14.3	-7.2	-1.5	-4.5
Business fixed investment	4.6	23.2	3.9	11.3	4.8	-.8	10.7	-.3
Gov't. purchases of goods and services	-1.2	.9	5.0	1.8	-1.8	-3.3	1.0	6.0
Federal	-7.4	-12.3	8.2	3.2	7.2	-11.3	-2.6	16.0
State and local	2.7	9.3	3.3	1.0	-6.6	1.6	3.1	.8
Disposable personal income	2.0	4.0	4.2	6.4	2.1	-1.4	.2	1.1
<u>Current dollars</u>								
Gross national product	8.4	19.8	10.9	14.8	10.6	6.7	11.9	10.5
Final purchases	7.5	19.3	12.3	14.8	11.0	4.2	15.8	12.2
Private	7.7	22.3	12.3	15.4	12.4	3.8	17.3	10.0
Excluding net exports	8.8	17.8	12.0	14.8	10.3	6.6	15.8	12.2
Personal consumption expenditures	9.0	14.4	11.9	14.2	11.4	6.1	15.0	14.3
Goods	3.3	19.1	10.4	17.2	7.9	2.6	15.1	14.8
Services	16.1	9.1	13.8	10.6	15.8	10.4	15.1	13.5
Gross private domestic investment	13.3	34.8	4.5	17.1	3.6	25.2	-3.0	-5.1
Residential structures	2.4	32.0	9.5	13.5	-8.5	6.1	11.7	1.4
Business fixed investment	10.6	33.3	13.7	19.3	12.9	9.6	22.0	5.4
Gov't. purchases of goods and services	6.5	8.8	12.3	12.2	5.6	5.8	10.0	21.1
Federal	-.9	-7.0	11.7	18.7	12.1	-4.6	3.1	43.8
State and local	11.1	18.5	12.6	8.9	2.3	11.9	13.8	10.4
Disposable personal income	10.3	12.7	11.4	13.8	13.0	7.7	9.9	10.9
Personal income	10.0	14.0	13.2	14.7	11.4	8.9	11.9	12.6
Wage and salary disbursements	11.7	15.3	10.2	14.1	12.7	8.0	8.8	10.9
Corporate profits with IVA & C.C. Adj.	-27.5	107.2	14.4	23.8	-12.2	-5.0	9.9	-2.6
Corporate profits before tax	-11.5	85.7	9.6	32.4	10.8	-8.9	27.8	6.6
Nonfarm payroll employment	4.6	7.1	2.8	4.4	4.3	2.9	1.8	1.6
Manufacturing	5.8	3.8	1.3	5.5	5.0	.8	-1.3	-2.3
Nonfarm business sector								
Output per hour	-.9	1.9	2.7	.8	-3.2	-4.1	-1.4	-.5
Compensation per hour	11.4	7.5	8.8	8.8	10.4	7.9	8.5	9.2
Unit labor costs	12.4	5.4	6.0	8.0	14.0	12.5	10.1	8.6
GNP implicit deflator <sup>1/</sup>	6.3	10.6	7.2	8.7	9.3	9.3	8.5	8.4
Gross domestic business product								
fixed-weighted price index <sup>2/</sup>	6.6	10.5	8.8	8.7	10.0	10.1	10.4	8.4
Excluding food and energy	5.5	9.4	8.9	8.7	7.7	7.9	7.6	7.7
Consumer price index (all urban)	7.8	10.2	8.8	9.1	11.1	13.6	12.9	13.2
Industrial production	1.4	12.8	7.9	7.8	4.0	-.8	1.1	-.3

<sup>1/</sup> Excluding Federal pay increases, rates of change were: 1978-Q1, 6.3 percent; 1978-Q4, 8.1 percent; 1979-Q1, 9.3 percent; 1979-Q4, 8.0 percent.

<sup>2/</sup> Uses expenditures in 1972 as weights.

April 16, 1980

CONFIDENTIAL - FR  
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Expenditures and income figures are billions of current dollars.)

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
Gross national product	1412.9	1528.8	1702.2	1899.5	2127.6	2368.8	2578.8	2770.2
Final purchases	1404.0	1539.6	1692.1	1877.6	2105.2	2350.6	2579.2	2770.4
Private	1101.3	1201.2	1330.8	1481.4	1669.6	1874.2	2046.8	2196.0
Excluding net exports	1095.3	1180.8	1322.8	1491.3	1679.9	1878.8	2055.4	2183.7
Personal consumption expenditures	889.6	979.1	1089.9	1210.0	1350.8	1509.8	1679.2	1798.8
Goods	498.3	541.5	601.3	660.1	730.9	809.9	889.0	926.7
Services	391.3	437.5	488.5	549.8	619.8	699.8	790.2	872.1
Gross private domestic investment	214.6	190.9	243.0	303.3	351.5	387.2	375.8	384.8
Residential construction	55.1	51.5	68.1	91.9	108.0	114.1	96.1	105.0
Business fixed investment	150.6	150.2	164.9	189.4	221.1	254.9	280.0	279.9
Change in business inventories	8.9	-10.7	10.0	21.9	22.3	18.2	-4	-1
Nonfarm	10.8	-14.3	12.1	20.7	21.3	16.5	-5	-1
Net exports of goods and services <sup>1/</sup>	6.0	20.4	8.0	-9.9	-10.3	-4.6	-8.6	12.3
Exports	137.9	147.3	163.3	175.9	207.2	257.5	306.8	335.4
Imports	131.9	126.9	155.4	185.8	217.5	262.1	315.4	323.1
Gov't. purchases of goods and services	302.7	338.4	361.3	396.2	435.6	476.4	532.3	574.3
Federal <sup>2/</sup>	111.1	123.1	129.7	144.4	152.6	166.6	193.0	210.9
State and local	191.5	215.4	231.6	251.8	283.0	309.8	339.3	363.4
Gross national product in constant (1972) dollars	1217.8	1202.3	1273.0	1340.5	1399.2	1431.6	1426.3	1396.9
Personal income	1154.9	1255.5	1381.6	1531.6	1717.4	1924.2	2131.5	2307.3
Wage and salary disbursements	764.6	805.9	890.0	984.0	1103.3	1227.6	1329.4	1413.6
Disposable personal income	984.6	1086.7	1184.5	1305.1	1458.4	1624.3	1797.3	1939.3
Saving rate (percent)	7.3	7.7	5.8	5.0	4.9	4.5	4.0	4.6
Corporate profits with I.V.A. and C.C. Adj.	83.6	95.9	126.8	150.0	167.7	179.0	157.2	133.4
Corporate profits before tax	126.9	120.4	156.0	177.1	206.0	237.4	229.6	201.8
Federal government surplus or deficit (N.I.A. basis)	-10.7	-70.6	-53.6	-46.3	-27.7	-11.2	-28.2	-28.6
High employment surplus or deficit (-)	9.0	-19.2	-14.3	-19.3	-11.5	8.0	26.3	90.4
State and local government surplus or deficit (-) (N.I.A. basis)	7.6	6.2	17.9	26.8	27.4	24.7	22.4	19.8
Excluding social insurance funds	-2.9	-6.2	2.3	7.3	4.2	-1.9	-7.0	-12.0
Civilian labor force (millions)	91.0	92.6	94.8	97.4	100.4	102.9	104.7	106.0
Unemployment rate (percent)	5.6	8.5	7.7	7.0	6.0	5.8	7.0	8.6
Nonfarm payroll employment (millions)	78.3	77.0	79.4	82.4	86.4	89.5	90.2	89.2
Manufacturing	20.1	18.3	19.0	19.7	20.5	21.0	20.4	19.4
Industrial production (1967=100)	129.3	117.8	130.5	138.2	146.1	152.2	148.7	142.9
Capacity utilization: all manufacturing (percent)	83.8	72.9	79.5	81.9	84.4	85.7	80.7	74.5
Materials (percent)	87.1	73.4	81.1	82.7	85.6	87.2	80.8	74.2
Housing starts, private (million units, A.R.)	1.34	1.16	1.54	1.99	2.02	1.75	1.05	1.26
New auto sales, (millions, A.R.)	8.91	8.66	10.12	11.13	11.28	10.70	9.84	9.42
Domestic models	7.49	7.08	8.63	9.07	9.29	8.38	7.12	6.76
Foreign models	1.42	1.58	1.50	2.06	1.99	2.32	2.72	2.66

<sup>1/</sup> Balance of payments data underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<sup>2/</sup> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

April 16, 1980

CONFIDENTIAL - FR  
CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
<u>Constant (1972) dollars</u>								
Gross national product	-1.4	-1.3	5.9	5.3	4.4	2.3	-4	-2.1
Final purchases	-7	.2	4.5	4.8	4.4	2.7	.3	-2.1
Private	-1.4	-3	5.6	5.6	5.0	3.2	-1	-2.5
Excluding net exports	-2.3	-1.0	6.5	6.2	5.0	2.6	-1.0	-3.2
Personal consumption expenditures	-.9	1.8	5.9	5.0	4.5	2.6	.1	-2.5
Goods	-3.4	.7	6.9	5.1	4.1	1.3	-1.9	-5.4
Services	2.3	3.2	4.8	4.9	5.1	4.3	2.4	.6
Gross private domestic investment	-11.4	-22.3	21.6	15.4	7.1	.4	-10.0	-6.2
Residential structures	-24.6	-13.9	23.3	20.7	4.2	-5.7	-22.6	-.3
Business fixed investment	-.3	-13.0	4.8	8.6	8.4	6.2	.9	-8.1
Gov't. purchases of goods and services	2.1	1.9	.2	2.0	1.8	.4	1.9	-.4
Federal	-.8	.7	-.2	4.4	-2.0	.9	5.4	.6
State and local	3.8	2.6	.5	.6	4.0	.2	-.1	-1.0
Disposable personal income	-1.5	2.1	3.7	4.2	4.6	2.3	-.5	-1.8
<u>Current dollars</u>								
Gross national product	8.1	8.2	11.3	11.6	12.0	11.3	8.9	7.4
Final purchases	8.9	9.7	9.9	11.0	12.1	11.7	9.7	7.4
Private	8.1	9.1	10.8	11.3	12.7	12.3	9.2	7.3
Excluding net exports	8.2	7.8	12.0	12.7	12.6	11.8	9.4	6.2
Personal consumption expenditures	9.8	10.1	11.3	11.0	11.6	11.8	11.2	7.1
Goods	8.9	8.7	11.0	9.8	10.7	10.8	9.8	4.2
Services	11.1	11.8	11.7	12.5	12.7	12.9	12.9	10.4
Gross private domestic investment	-2.5	-11.0	27.3	24.8	15.9	10.2	-2.9	2.4
Residential structures	-16.7	-6.5	32.3	35.0	17.5	5.7	-15.8	9.2
Business fixed investment	10.8	-.3	9.8	14.9	16.7	15.2	9.8	-.1
Gov't. purchases of goods and services	12.3	11.8	6.8	9.7	9.9	9.4	11.7	7.9
Federal	8.7	10.7	5.4	11.3	5.7	9.2	15.8	9.3
State and local	14.5	12.5	7.5	8.7	12.4	9.5	9.5	7.1
Disposable personal income	9.2	10.4	9.0	10.2	11.7	11.4	10.7	7.9
Personal income	9.7	8.7	10.0	10.9	12.1	12.0	10.8	8.2
Wage and salary disbursements	9.0	5.4	10.4	10.6	12.1	11.3	8.3	6.3
Corporate profits with IVA & C.C. Adj.	-15.6	14.7	32.2	18.3	11.8	6.7	-12.2	-15.1
Corporate profits before tax	9.6	-5.1	29.6	13.5	16.3	15.2	-3.3	-12.1
Nonfarm payroll employment	2.0	-1.7	3.1	3.8	4.9	3.5	.8	-1.1
Manufacturing	-.4	-8.7	3.7	3.6	4.0	2.5	-2.6	-5.3
Nonfarm business sector								
Output per hour	-2.9	1.9	3.5	1.8	.5	-1.1	-.9	-.6
Compensation per hour	9.4	9.9	8.3	8.0	8.6	8.9	9.2	9.6
Unit labor costs	12.7	7.8	4.7	6.3	8.0	10.2	10.2	10.2
GNP implicit deflator	9.7	9.6	5.2	6.0	7.3	8.8	9.3	9.6
Gross domestic business product								
fixed-weighted price index 1/	10.4	9.4	5.3	6.2	7.6	9.5	10.7	9.6
Excluding food and energy	8.1	9.5	5.8	6.3	7.2	8.1	8.1	8.2
Consumer price index (all urban)	11.0	9.1	5.8	6.5	7.7	11.3	15.3	9.7
Industrial production	-.4	-8.9	10.8	5.9	5.7	4.2	-2.2	-3.9

1/ Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

April 16, 1980

	Fiscal Year 1979*	FY 1980 e/		FY 1980 e/2/		CY 1979*	CY80e/ F.R. Board	FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board			Calendar quarters; unadjusted data						1981		
								1979		1980		1981		III	II	III
		III*	IV*	I	II			III	IV	I	II	III				
Unified budget receipts	465.9	532.4	530.3	628.0	602.8	480.5	548.9	119.9	114.0	115.0	157.6	143.7	132.6	135.9	175.8	158.5
Unified budget outlays	493.7	568.9	572.0	611.5	621.9	508.7	584.4	124.4	138.6	142.2	144.1	147.1	151.0	151.4	157.3	162.2
Surplus(+)/deficit(-), unified budget	-27.7	-36.5	-41.7	16.5	-19.1	-28.2	-35.5	-4.5	-24.6	-27.2	13.5	-3.4	-18.4	-15.5	18.5	-3.7
Surplus(+)/deficit(-), off-budget agencies 3/	-12.4	-15.0	-16.0	-18.7	-20.0	-13.2	-16.3	-4.1	-1.0	-3.7	-6.6	-4.7	-1.3	-6.9	-6.6	-5.2
Combined deficit to be financed	-40.2	-51.5	-57.7	-2.2	-39.1	-41.4	-51.8	-8.6	-25.6	-30.9	6.9	-8.1	-19.7	-22.4	11.9	-8.9
Means of financing combined deficits:																
Net borrowing from public	33.7	39.3	45.3	1.4	37.6	37.3	48.1	12.4	18.9	18.4	1.8	6.2	21.7	19.4	-9.9	6.4
Decrease in cash operating balance	-1.8	9.2	9.2	0.0	0.0	0.4	0.9	-6.7	8.3	7.7	-6.8	0.0	0.0	0.0	0.0	0.0
Other 4/	8.3	3.0	3.1	0.8	1.5	3.5	2.8	2.9	-1.7	4.8	-2.0	2.0	-2.0	3.0	-2.0	2.5
Cash operating balance, end of period	24.2	15.0	15.0	15.0	15.0	15.9	15.0	24.2	15.9	8.2	15.0	15.0	15.0	15.0	15.0	15.0
Memo: Sponsored agency borrowing 5/	19.1	16.2	30.9	16.7	15.0	25.5	27.4	4.8	7.5	7.9	9.5	6.0	4.0	3.0	4.0	4.0
<b>NIA Budget</b>								<b>Seasonally adjusted annual rates</b>								
Receipts 6/	483.7	543.2	544.2	636.1	599.6	497.9	559.2	504.8	525.8	541.3	559.9	564.6	571.1	595.9	610.2	625.3
Expenditures 6/	493.6	568.1	569.6	621.4	632.8	509.0	587.4	516.1	540.4	561.6	572.9	600.9	614.1	626.8	633.8	656.6
Purchases (total)	162.4	188.1	187.4	204.4	206.2	166.6	193.1	162.9	178.4	187.1	190.6	193.7	200.8	204.4	208.0	211.6
Defense	105.9	122.4	120.8	136.8	136.9	108.3	125.3	109.0	114.6	119.4	122.7	126.5	132.4	135.3	138.4	141.4
Nondefense	56.5	65.7	66.6	67.6	69.3	58.4	67.8	53.9	63.8	67.7	67.9	67.2	68.4	69.1	69.6	70.2
All other expenditures	331.2	380.0	382.2	417.0	426.6	342.4	394.3	353.2	362.0	374.5	382.3	407.2	413.3	422.4	425.8	445.0
Surplus(+)/deficit(-) 6/	-9.9	-24.9	-25.4	14.7	-33.2	-11.2	-28.2	-11.3	-14.7	-20.4	-13.0	-36.4	-43.0	-30.9	-23.6	-31.3
High employment surplus(+)/deficit(-) (NIA basis)	4.3	n.a.	16.9	n.a.	76.2	8.0	26.3	10.8	8.3	5.2	27.2	27.0	45.7	74.7	91.8	92.5

\*--actual

e--estimated

n.a.--not available

1. The Budget of the United States Government, Fiscal Year 1981, January 1980 and BEA Fiscal Year 1981 Budget Revisions, March 1980.
2. In its recommendations for the First Concurrent Resolution on the Budget, Fiscal Year 1981, March 1980, the House Budget Committee approved receipts of \$614.2 billion and outlays of \$612.0 billion.
3. Includes Federal Financing Bank Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Pension Benefit Guaranty Corporation.
4. Checks issued less checks paid, accrued items and other transactions.
5. FRB staff estimates include Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives marketable debt on an offerings basis.
6. BEA Fiscal Year 1981 Budget Revisions, March 1980. The fiscal year totals are based on unadjusted data and do not conform to the average of four seasonally adjusted quarters. The FRB staff estimates, therefore, have been adjusted in order to make the BEA and the staff estimates comparable.



Comments on the Federal Sector

The staff's fiscal outlook has been revised this month to reflect information contained in the administration's March budget proposals. On the receipts side, the staff has incorporated the oil import fee which is expected to increase federal revenues by \$11 billion during fiscal year 1981. The President's proposals to withhold taxes on interest and dividends were not incorporated in this Greenbook forecast due to uncertainty regarding Congressional passage. Total receipts, on a unified basis, now are projected by the staff at \$603 billion in fiscal year 1981, about \$25 billion below the administration estimate, reflecting differences in both legislative and economic assumptions.

The staff's projection of federal spending for fiscal year 1981 totals \$622 billion, about \$10 billion more than the administration's revised estimate. Differences in the forecasts of unemployment and interest rates account for about one-half of this divergence. The remaining difference is due to the staff's estimate that only about \$12-1/2 billion of the \$17 billion in planned expenditure cuts will be realized; our assumption is that proposed reductions in employment sensitive programs (public service employment and federal construction) will be modified in an environment of rapidly rising unemployment.

The staff thus estimates a unified budget deficit in fiscal year 1981 of around \$19 billion, as compared to a \$16 billion surplus projected by the administration. For the current fiscal year, the staff expects a deficit of around \$42 billion, with receipts and outlays projected at \$530 billion and \$572 billion, respectively. Finally, the

high employment budget, which measures discretionary changes in fiscal policy by excluding the effect of cyclical changes on the budget, is estimated to show a substantial \$37 billion shift toward surplus over the four quarters of 1980, and around \$57 billion during 1981. This move toward restraint in 1981--when scaled by potential GNP--is among the largest of the post-war period.

Summary

Interest rates in most sectors of the credit markets have fallen on balance since the March FOMC meeting, largely in response to indications of weakness in economic activity and a slowing in money stock growth. The new credit restraint program also may have contributed to rate declines by reinforcing expectations that credit stringency would deter spending. Rates on short-term instruments have declined as much as 125 points over the intermeeting period, while bond yields were unchanged to 80 basis points lower. Generally, yields on Treasury instruments and higher-rated private issues declined more than other rates as investors reacted to increasing risks from a softening economy and uncertain credit availability. Although declining recently, the federal funds rate has risen 2-1/2 percentage points on balance over the intermeeting period; the demand for federal funds appears to have been bolstered by the surcharge on frequent discount borrowing.

The monetary aggregates weakened substantially in March from the exceptionally rapid growth rates of February. M-1A and M-1B declined, perhaps reflecting the impact of previous increases in interest rates as well as the slowing economy. The growth of the other components of M-2 and M-3 also moderated in March. Assets of money market mutual funds grew more slowly early in the month, and dropped after the announcement of the special deposit requirements at mid-month. The fall-off in flows to money market funds was not, however, accompanied by a significant strengthening of deposits at banks and thrifts. Savings deposits at these institutions declined more rapidly in March, although flows into

small time accounts picked up due to rapid expansion of MMCs. Moreover, total deposits at S&Ls fell off sharply in the last ten days of the month when money market fund shares also were declining. Growth of the components of M-2 and M-3 that serve as managed liabilities of banks and thrifts also moderated in March. Bank credit expansion slowed from a 15-3/4 percent average rate in January and February to 3-3/4 percent in March, with growth in both loans and investments slackening.

Borrowing by private nonfinancial sectors from all sources appears to have moderated substantially in March. In large measure this reflects the cumulative impact over recent months of the rising costs and curtailed availability of credit from intermediaries, who themselves are facing reductions in fund inflows and higher costs of borrowing. By increasing the cost of managed liabilities even further for banks, imposing a quantitative limit on their loan growth and discouraging certain types of lending, the March 14 actions likely have intensified these trends.

Banks raised their prime rates 1-1/2 percentage points over the intermeeting period, perhaps contributing to the fall-off in their business lending. Commercial paper issuance by nonfinancial businesses, on the other hand, picked up, helping to sustain short- and intermediate-term business borrowing at a relatively rapid pace. Businesses remain reluctant to take on long-term debt at current rate levels. The volume of publicly offered bonds edged up only a bit in March from depressed levels, and an unusually high proportion of these issues carried maturities of under ten years.

Reports indicate that banks and some finance companies have cut back sharply on consumer lending by raising rates where legally permitted, imposing or raising fixed charges, reducing credit lines and refusing many potential customers. In February consumer installment lending picked up somewhat from the reduced pace of December and January, but much of the lending was concentrated at the finance subsidiaries of the auto companies, who expanded their share of total net auto lending as other creditors withdrew from the market.

With savings and loan associations and mutual savings banks suffering deposit weakness, mortgage market conditions have tightened sharply further. Average interest rates on new commitments for conventional mortgages at S&Ls increased nearly 1 percentage point early in the intermeeting period before stabilizing toward mid-April; secondary market yields on government underwritten loans have eased off in recent weeks in concert with Treasury bond yields. In this environment, and with outstanding commitments to make new mortgages falling in February for the sixth consecutive month, it is likely that mortgage lending at S&Ls declined further in March. Sponsored agencies stepped up their support of the mortgage market, issuing a record volume of securities in the first quarter.

Bond issuance by state and local governments fell somewhat in March, bringing volume in the first quarter to the lowest quarterly level since early 1976. Increases in tax-exempt yields caused numerous postponements and cancellations in February and March due in part to constraints imposed by statutory rate ceilings. The volume of housing revenue bonds, however, averaged over \$850 million a month in the first

quarter, only a little below the fourth quarter pace. Federal government borrowing was quite strong in March. Issuance of marketable debt was boosted to offset the effects of large declines in nonmarketable issues--especially savings bonds and securities held by foreign central banks.

### Outlook

Interest rates during coming months are likely to fluctuate around the lower levels they have recently attained. Market participants appear already to have discounted a moderate weakening in economic activity and some decline in the federal funds rate from reduced demands for money and reserves. However, high rates of inflation should continue to bolster nominal transactions and borrowing needs. At the same time, intermediaries under pressure from high short-term rates and the credit restraint program are unlikely to ease lending terms greatly in the near term.

The corporate financing gap is expected to widen in the second quarter as profits weaken while inventory accumulation picks up. Since figures for the first quarter suggest that firms borrowed in excess of current needs, perhaps in anticipation of restraints on credit availability, they may well meet some of their financing requirements in the current quarter by drawing down liquid assets. While demands on commercial banks likely will ease, many banks may still feel constrained by the Board's lending guideline and may therefore maintain relatively tight credit policies. Under these circumstances, commercial paper issuance may remain robust, and especially if long-term rates stabilize near current levels, the volume of note and bond offerings could begin

to pick up. Lower rated companies may encounter increasing difficulties in obtaining funds outside the banking system, however. Some signs of reluctance to extend any credit to such firms have occasionally been evident in the commercial paper market. Moreover, insurance company cash flow has been cut back substantially by policy loans and changes in pension fund investment flows, severely limiting the traditional access of lower-rated issuers to private placement funds.

Credit flows to the household sector, on the other hand, could decline still further. Installment lending is likely to fall somewhat in response both to the high cost of funds in the face of binding usury ceilings and to the new credit restraint program. Flows of funds into the mortgage market by sponsored agency and tax-exempt sources are expected to continue relatively robust, but a substantial pick-up in lending over the near-term by thrifts is unlikely. Inflows of small time and savings deposits to these institutions are expected to strengthen only moderately, and concerns about prospective earnings of thrifts may limit their access to managed liabilities except for Home Loan Bank advances. Conditions in the primary mortgage market could ease slightly, especially in light of the rate declines that have already occurred in the secondary mortgage market and in other sectors of the credit markets, but the spread between mortgage and bond yields is likely to remain historically large and nonprice rationing will continue.

Bond offerings by state and local governments may increase slightly as conditions in the tax-exempt market stabilize and governments liberalize interest rate ceilings. Mortgage revenue bonds should continue to account for a sizable part of this volume, given the more liberal rules

for such offerings embodied in a recent House-passed bill. The federal government's credit needs will be declining seasonally in the second quarter. However, the runoff of cash management bills after each tax date will be about offset by continued heavy borrowing in the coupon sector and through additions to regular weekly bill auctions to meet a substantial fiscal year deficit.



INTERNATIONAL DEVELOPMENTS

---

Summary. The strong demand for dollars in exchange markets that began in mid-February carried through early April. In the second week of April, however, the dollar came under considerable selling pressure for a few days. In the earlier period, the demand for dollars was influenced primarily by high and rising interest rates on dollar-denominated assets as monetary policy in the United States was perceived to be aimed aggressively at reducing inflation; the shift in market sentiment in April apparently reflected a judgment that the U.S. economy was slowing rapidly, and that this would bring about lower U.S. interest rates.

From mid-February through the first week of April, when dollar exchange rates peaked, the weighted-average value of the dollar rose by 10 per cent, with gains of 13 per cent against the German mark and 7-1/2 per cent against the yen. During that period

net U.S. sales of dollars totalled \$4.3 billion. Since the first week of April the weighted average value of the dollar has declined by 3 per cent.

U.S. intervention became somewhat more forceful as the market tended to be disorderly at times.

Monetary policy has firmed somewhat in other countries over the past month as several countries took actions to limit credit expansion. In Britain a 1980/81 budget was presented that extended restrictive monetary growth targets and tightened fiscal policy. High inflation rates remained in the forefront of policy concern abroad, though the

most recent data show a few signs of slowing rates of price increase. Economic activity remained strong through February in Japan, Germany, and Italy, but the weakness seen earlier persisted in France and the United Kingdom.

During the first two months of 1980 the U.S. merchandise trade deficit rose sharply to an annual rate of \$58 billion (international accounts basis). Imports rose very rapidly, though perhaps half of the increase in non-petroleum imports was transitory, reflecting erratic monthly seasonals and peak metals prices. Increases in non-oil imports were spread across most major commodity categories. Petroleum imports were up mainly because of higher prices, although the full effect of recent price increases had not yet come through in import prices. Exports of non-agricultural commodities rose moderately in January-February, partly reflecting the high price of silver in exported coins -- also a transitory element. Agricultural exports were well sustained despite the embargo on shipments of U.S. grain to Russia.

Reported net private capital inflows in January-February were relatively large. Banks' reported net inflows for the two months were substantial and partial data indicate further inflows in March. Part of the inflow in February was related to special month-end factors. These banking flows largely reflect transactions with foreign banks, but there was also a reduction in lending to nonbank foreigners in January and February. Net foreign purchases of U.S. corporate stocks totalled \$1.7 billion in January-February -- exceeding the amount for all of 1979.

Foreign official assets in the United States declined by nearly \$1 billion in February. Large intervention sales of dollars by some countries were partially offset by an inflow of \$1.3 billion from OPEC members. In March and early April there were much larger sales of U.S. assets by countries intervening to support their currencies. OPEC assets in the United States rose about \$1 billion in March, according to partial data.

Outlook. Projections of the trade and current account balances for 1980 and 1981 have not been modified significantly since the last Greenbook. The trade deficit for 1980 is projected to be \$41 billion, declining through the year from the peak first quarter rate as imports are reduced while exports continue to grow slowly. The corresponding current account deficit for the year would be about \$13 billion. The trade deficit is projected to level off to about a \$24 billion rate in 1981, and a moderate current account surplus emerges. Economic activity abroad, though sluggish, is not expected to slow as much this year as activity in the United States, and to recover more quickly.

At this time exchange markets appear to be especially sensitive to indications of changes in monetary conditions, and a further relative easing of interest rates in the United States could induce some downward pressure on the dollar. However, with the U.S. trade and current account balances projected to show some gains, while other countries' deficits remain large, the staff does not expect the weighted average foreign exchange value of the U.S. dollar to differ significantly over the projection period from the level currently prevailing.

CONFIDENTIAL (FR)  
CLASS II FOMC

OUTLOOK FOR U.S. NET EXPORTS AND RELATED ITEMS  
(BILLIONS OF DOLLARS, SEASONALLY ADJUSTED ANNUAL RATES)

	1979 ANN.	1980 ANN.	1981 ANN.	1980 Q I	1980 Q II	1980 Q III	1980 Q IV	1981 Q I	1981 Q II	1981 Q III	1981 Q IV
<b>1. GNP NET EXPORTS</b>											
CURRENT \$, NET	-4.6	-8.6	12.3	-22.2	-10.5	-4.3	2.7	10.6	13.0	13.4	12.3
EXPORTS OF G&S	257.5	306.8	335.4	298.0	303.9	310.2	315.1	322.7	330.7	339.5	348.6
IMPORTS OF G&S	262.1	315.4	323.1	320.2	314.4	314.5	312.4	312.1	317.7	326.1	336.3
CONSTANT 72 \$, NET	17.6	27.8	34.8	23.3	27.6	28.7	31.6	34.0	34.8	35.2	35.2
EXPORTS OF G&S	119.9	126.3	127.2	126.7	126.0	126.3	126.1	126.3	126.7	127.5	128.3
IMPORTS OF G&S	102.3	98.5	92.4	103.4	98.4	97.6	94.5	92.3	91.9	92.3	93.2
TERMS OF TRADE (1972=100) 1/	83.8	75.9	75.4	76.0	75.5	76.2	75.6	75.6	75.5	75.4	75.3
<b>2. U.S. MERCHANDISE TRADE BALANCE 2/</b>											
EXPORTS (EXCL. MILITARY)	182.1	214.2	235.1	209.7	212.0	215.5	219.5	225.7	231.6	238.1	245.0
AGRICULTURAL	35.4	37.9	40.9	39.9	38.1	36.8	37.0	39.1	40.3	41.4	42.7
NONAGRICULTURAL	146.7	176.3	194.2	169.8	174.0	178.7	182.6	186.6	191.3	196.7	202.3
IMPORTS	211.5	255.5	258.7	264.4	253.7	252.7	251.2	250.2	254.3	261.0	269.5
PETROLEUM AND PRODUCTS	60.0	87.0	92.2	88.0	85.2	87.5	87.3	88.6	90.6	93.3	96.4
NONPETROLEUM	151.5	168.6	166.5	176.5	168.5	165.3	163.9	161.6	163.7	167.7	173.1
<b>3. U.S. CURRENT ACCOUNT BALANCE</b>											
OF WHICH: NET INVESTMENT INCOME	32.3	32.4	34.3	33.2	31.7	31.9	32.7	33.7	34.1	34.5	34.9
<b>4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/</b>											
REAL GNP, % CHANGE, ANNUAL RATES	3.7	1.8	1.5	1.0	0.4	0.4	0.8	1.6	2.0	2.4	2.6
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	7.8	11.5	8.4	14.5	11.7	9.3	8.7	8.3	7.8	7.1	7.0

1/ GNP EXPORT IMPLICIT DEFLATOR DIVIDED BY GNP IMPORT IMPLICIT DEFLATOR.

2/ INTERNATIONAL ACCOUNTS BASIS.

3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES -- PER CENT SHARE IN TEN-COUNTRY TOTAL MULTILATERAL TRADE. CANADA (9.1%), JAPAN (13.6%), UNITED KINGDOM (11.9%), GERMANY (20.8%), FRANCE (13.1%), ITALY (9.0%), BELGIUM (6.4%), THE NETHERLANDS (8.3%), SWITZERLAND (3.6%), SWEDEN (4.2%).

4/ WHOLESALE PRICES FOR JAPAN.

P/ PROJECTED.